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**REVIEW OF PRACTICAL IMPLEMENTATION ISSUES OF
INTERNATIONAL FINANCIAL REPORTING STANDARDS**

Case study of Brazil

Note by the UNCTAD secretariat*

Executive Summary

In concluding its twenty-second session, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) agreed to conduct further reviews of the practical implementation challenges of International Financial Reporting Standards (IFRS) as well as ways to meet these challenges. It was also agreed that the further review could be conducted by preparing country case studies with a view to developing guidance on good practices in IFRS implementation. Accordingly, five country case studies covering Brazil, Germany, India, Jamaica and Kenya were prepared.

This report presents findings of the case study conducted in Brazil. In March 2006, the Central Bank of Brazil announced that starting in 2010 it will require all financial institutions under its supervision to prepare their consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). In this case study, the regulatory framework, enforcement mechanisms, and technical aspects of Brazilian financial reporting requirements are discussed.

The main objectives of this case study are to draw lessons learned from Brazil's experience in converging its standards with IFRS, and to discuss the findings with member States with a view to facilitating sharing of experience among countries that are either implementing IFRS or that intend to do so in the coming years.

* This document was submitted on the above-mentioned date as a result of processing delays.

CONTENTS

	Page
I. INTRODUCTION.....	3
II. REGULATORY FRAMEWORK AND ENFORCEMENT.....	4
III. LESSONS LEARNED.....	12
IV. CONCLUSIONS.....	13

I. INTRODUCTION**

1. In 2004, the Brazil economy experienced significant growth with the country's Gross Domestic Product (GDP) growing by 5.2 per cent – the highest growth rate since 1994.* Brazil attracted close to US\$ 18 billion in foreign direct investment (FDI). At the same time, outward investment from Brazil amounted to \$9.5 billion.† As of June 2006, there were 31 Brazilian companies listed on the New York Stock Exchange. Integrating into global capital markets and facilitating the mobilization of capital and fostering investor confidence call for national corporate transparency requirements which are consistent with international best practices, including in the area of corporate financial reporting. These trends have underpinned efforts aimed at converging national accounting and reporting standards to International Financial Reporting Standards (IFRS) in Brazil. To this end, various reforms in the area of accounting are being undertaken in the country.

2. Brazil is currently undergoing a gradual process of converging its accounting standards with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards (Board). The main institutions that are leading the convergence process are the Brazilian Securities Commission (*Comissão de Valores Mobiliários* - CVM), the *Instituto dos Auditores Independentes do Brasil* (IBRACON) and the Central Bank of Brazil.

3. A number of developments have recently advanced Brazil's progress towards IFRS. In March 2006, the Central Bank of Brazil announced that, as of 2010, all financial institutions under its supervision will be required to prepare their consolidated financial statements in accordance with IFRS. The Brazilian Securities and Exchange Commission has promoted efforts aimed at the gradual adoption of IFRS by companies listed in capital markets in Brazil. For example, the CVM has been working more closely with IBRACON with a view to accelerating convergence to IFRS. Companies listed on São Paulo Stock Exchange's (BOVESPA) New Market (launched in December 2000) are required to provide financial statements prepared in accordance with IFRS or to the United States Generally Accepted Accounting Principles (GAAP), in addition to those that are prepared under Brazilian accounting standards. A Committee of Accounting Pronouncements was recently set up in Brazil and has said that its objective will be to achieve full adoption of IFRS in the country.

4. However, despite the important changes to have occurred in the Brazilian accounting system in recent years, there are still important remaining differences between Brazilian accounting standards and International Financial Reporting Standards. Some practical and operational factors such as the legal environment and economic, tax, cultural and educational issues, tend to place obstacles in the path of convergence of Brazilian accounting standards with IFRS. Economic and tax issues particularly affect the process of convergence of Brazilian accounting to IFRS, because in Brazil the accounting system is strongly tied to tax laws and regulations that establish rules for recognition, measurement and disclosure of business transactions.

5. This paper provides a brief overview on the development of accounting systems in Brazil and its current status, discusses the salient features of regulatory frameworks and

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* Central Bank of Brazil, *Annual Report 2004*.

† UNCTAD *World Investment Report 2005*, pp. 64-66.

enforcement, outlines some of remaining major differences of accounting rules in Brazil with regard to IFRS, and summarizes main lessons learned through the recent process of reforming of accounting system towards IFRS.

II. REGULATORY FRAMEWORK AND ENFORCEMENT

6. Brazil's accounting system was initially developed under the influence of European countries (mainly Italy) and was later affected by US accounting practices. It is strongly influenced by the country's tax legislation, corporate laws and by rules established by government agencies. These agencies include a number of organizations such as Brazil's Central Bank (BACEN), the Brazilian Securities Commission (CVM), the Superintendence of Private Insurance (SUSEP), the National Telecommunications Agency (ANATEL) and the Secretariat for Complementary Pension Funds (SPC).

7. The development of the stock market and national financial system reforms in the 1970s underpinned the development of accounting in the country. In 1976, the Brazilian Securities Commission was created to supervise the stock market and to regulate the establishment of accounting standards for listed companies.

8. Reforms of the financial system included measures such as the requirements for listed companies to have their financial statements audited by independent auditors and to comply with the financial reporting standards issued by the Central Bank of Brazil under instruction n° 179/72. Another measure included the introduction of a Corporate Law (6.404/76), which included specifications on accounting principles that companies were required to apply. It also established recognition and measurement criteria and accounting procedures that were strongly influenced by the US Generally Accepted Accounting Principles (GAAP). Prior to the 1970s, Brazilian accounting was strongly influenced by tax legislation.

9. With regard to the regulatory framework, Brazilian companies can be classified as: a) companies listed in the stock exchange (i.e. that are registered with the CVM); b) banks and financial institutions; c) transnational companies with subsidiaries in Brazil; and d) other non-listed companies including private limited partnerships.

10. Both listed and unlisted business entities are subject to the requirements of the Corporate Law. Listed companies are required to follow CVM-approved accounting standards. They also are required to have their financial statements audited by independent auditors. In general, unlisted companies usually apply accounting standards established by the CVM.

11. Banks and financial institutions are required to follow accounting standards set by the National Monetary Council and the Central Bank of Brazil. There are more than 2 450 institutions supervised by the Central Bank of Brazil;[‡] the top ten banks make up more than 65 per cent of the total assets of the national financial system. These entities follow a prescribed chart of accounts (known as the accounting plan for institutions of the national financial system). Banks and financial institutions are to follow recognition, measurement and disclosure criteria are consistent with IFRS.

12. Transnational corporations or subsidiaries of foreign companies in, among others, the automobile, chemical, pharmaceutical, paper and cardboard and foodstuffs industries are usually established as limited liability partnerships and are not required to provide financial

[‡] More information is available at: <http://www.bcb.gov.br>.

statements. They are not subject to audits by independent auditors. In case audit reports are prepared, they are meant for use in managerial decision-making.

13. Other companies not included in the previous categories are not required to report and disclose their financial statements or be audited by independent auditors. They are required to provide some company information only to the Federal Tax Revenue Service in accordance with the tax law.

14. As mentioned previously, Brazilian accounting has been traditionally subject to legislation and regulation by governmental bodies. Progress with respect developing accounting principles and concepts has not been fast. It was only in 1972 that the Federal Accountancy Council (CFC), through resolution 321/72 and the Central Bank of Brazil, through instruction 179/72, included the wording “accounting principles” as part of the requirements for financial reporting by listed companies. However, there was no definition of these accounting principles.

15. In accordance with the requirements of the Institute of Independent Auditors of Brazil (IBRACON) the auditor’s report had to state whether the financial statements were in conformity with generally accepted accounting principles or not. However, IBRACON also did not provide details on such principles.

16. It was not until 1981 that the CFC issued a resolution which defined what was applicable in Brazil. However, this did not affect the basic accounting principles (as opposed to generally accepted accounting principles and auditors in practical terms), as the prevailing thinking was that it was more important to ensure that financial statements were in accordance with legislation or regulatory requirements, rather than with accounting principles.

17. Further steps took place in 1993, when the CFC published another resolution (replacing the one it published in 1981) defining seven basic accounting principles, namely: legal entity, going-concern, historical cost, prudence, accrual basis, objectivity and monetary adjustment. In 1996, the CFC established a working group composed of accounting experts, with the goal of developing accounting standards for Brazil. This working group was comprised of members of various Brazilian regulatory agencies, such as the CVM, BACEN, SUSEP, the Federal Revenue Service, the National Treasury Secretariat and the Brazilian Institute of Independent Auditors.

18. One of the main objectives of the working group was to propose ways to adapt Brazil’s accounting practices to standards issued by the International Accounting Standards Committee (the predecessor of the International Accounting Standards Board (IASB)). Accounting standards issued by the CFC do not have legal authority since the CFC is not recognized by Brazilian law as an accounting standard-setter for regulatory filing purposes. Only accounting standards issued by the CFC are approved by the CVM (Brazilian Securities Commission) become mandatory for listed companies. However, the CFC could sanction its members for not following its accounting standards in preparing financial general purpose financial statements.

19. Significant changes have also taken place in the area of audit regulation in Brazil. Auditing gained more importance in the 1970s after listed companies were required to have their financial statements audited by independent auditors. Prior to that, audited financial statements were required only for subsidiaries of transnational corporations, or as part of requirements for submitting loan applications from private or public financial institutions.

20. At present, in addition to listed companies, other public service companies regulated by the Federal Government, e.g. banks, insurance companies, telephone service providers and utility companies, are required to have their financial statements audited by independent auditors. Currently, the Brazilian Securities Commission requires that new accountants who apply for accreditation as independent auditors must pass a technical examination. As of May 2006, 481 firms were officially recognized as independent auditors in Brazil.[§]

21. The Brazilian Securities Commission and the Central Bank of Brazil require that independent auditors be rotated every five years. After rotation, independent auditors could be hired once again by the same client after a break of three years. This requirement is intended to avoid auditors losing their impartiality if they maintained a long-term relationship with a client.

22. In accordance with current regulation, audit firms in Brazil have the option of participating in peer-review programmes. Independent audit firms apply auditing standards which are very similar to the ones issued by the American Institute of Certified Public Accountants (AICPA) or the International Auditing and Assurance Board of IFAC. Furthermore, in accordance with emerging international good practice, independent audit firms in Brazil are prohibited from providing consulting services to their audit clients. However, they are allowed to provide advice on tax planning and other similar activities which, in Brazil, are considered to be compatible with the duties of an independent auditor.

23. Education and business culture are, in general, important factors affecting the pace of convergence of Brazilian accounting standards with IFRS. The quality of accounting education and the status of the accounting profession in a given country has had a significant impact on the quality of financial information that an accounting system is required and able to produce. Significant efforts have been undertaken in the country over recent years to improve the quality of accounting education.

24. The first accounting school in Brazil, the Álvares Penteado Foundation (Fundação Álvares Penteado – FECAP), was established in São Paulo in 1906. It was strongly influenced by the Italian school of accountancy that emphasized the double-entry bookkeeping system rather than reporting concepts. This style of accounting education prevailed until the mid-1970s before financial reforms took place and Corporate Law was introduced.

25. At present there are 885 university accounting programmes authorized by the Ministry of Education delivered throughout Brazil. Most of the institutions that deliver accounting education are located in the southern and south-eastern regions of the country. In 2005, about 150,000 accounting students were enrolled in these institutions. It is important to note that the University of São Paulo (USP) was the first educational institution in Brazil that was authorized to regularly accept students for graduate and doctoral degree programmes. As of 30 April 2006, USP had conferred a total of 147 PhD degrees in accounting.

26. However, accounting in Brazil is still not as well known and held in such wide regard as a profession as it is in some other countries with a long history of accounting. In general, the prevailing opinion is that accountants are responsible for bookkeeping and corporate tax. Accounting education at Master's and PhD programmes attracts less than 1 per cent of all undergraduate students in accounting. Research on international accounting in the form of dissertations, theses and publications in professional and academic journals is still not significant. As a result, expertise on international accounting matters is highly concentrated in

[§] More information is available at: <http://www.cvm.gov.br>.

a small number of experts and professional accountants. One of main obstacles is the fact that these standards are written in English and are not widely available in languages that most professional accountants in Brazil could easily understand.

27. In Brazil, there are two bodies that are designated to regulate and supervise the accounting profession. These are the Federal Accountancy Council (CFC) and the Institute of Independent Auditors of Brazil (IBRACON). The Federal Accountancy Council is a representative agency of the Brazilian accounting profession created by Decree 9295/46 to supervise professional accounting practice in Brazil.

28. Prior to 1999, all persons who held a bachelor degree in accounting and who graduated from an academic institution accredited by the Ministry of the Education, were eligible to practice accounting by registering with the Regional Accountancy Council. After 1999, a new regulation that required candidates to pass a qualifying examination was introduced. The pass rate fluctuated between 50 per cent and 65 per cent of the total number of candidates enrolled.

29. According to the Federal Accountancy Council, 393,382 accountants are currently licensed to practice as independent auditors. Among these, 200,707 or 51 per cent are accounting technicians or secondary school graduates, 192,875 or 49 per cent hold bachelor degrees in accounting.

30. Furthermore, the CFC established requirements for continued professional development (CPD) for independent auditors. Accordingly, independent auditors were required to undertake 24 hours of CPD during 2003 and 32 CPD hours annually after that. Activities that qualify for CPD were specified in resolution 945/02 of the CFC. The CPD requirements are expected to apply to all accountants licensed by the Council.

Comparison of Brazilian accounting standards with IFRS

31. According to research by the CVM,** the convergence process of Brazilian standards with the IFRS is developing at a moderate pace.

32. Recently, CVM†† presented the main differences between Brazilian accounting standards and IFRS. The following deserve special mention: (i) the introduction and application of the fair value measurements, particularly by non-financial companies; (ii) accounting for financial instruments also in relation to fair value; (iii) accounting for and reporting on finance leases in financial statements; (iv) business combinations; (v) accounting for government grants; and (vi) segment reporting.

33. The following is a brief description of some of accounting requirements in Brazil, mainly of those that differ from IFRS.

Inventory

34. Inventory measurement criteria in Brazilian legislation are similar to those of the IASB. The first-in-first-out, weighted average, and lower of cost or net realizable value are accepted methods of valuation. Interest related to the acquisition of inventory is treated as an expense – in the same manner as required in IAS 2 Inventories.

** Official Memorandum/CVM/SNC/SEP No. 01/2006.

†† *Ibid.*

Construction contracts

35. Long-term construction contracts, especially civil construction contracts, are subject to fiscal rules that affect the general-purpose financial statement of construction companies. Tax regulations require that revenue from construction contracts be recognized on a cash basis. It is important to remember that most companies active in the construction industry are limited liability companies that are not required to publish their financial statements. The few publicly-traded corporations are subject to CVM standards that require recognition of revenue based on the percentage-of-completion method.

Joint ventures and consolidation

36. In Brazil, legally established joint ventures are treated in the same way as other corporate interests and consolidated using either the cost or equity method. Consolidation is mandatory only for companies regulated by the Brazilian Securities Commission and by the Corporate Law.

Impairment

37. Brazilian standards require that recoverable value be based on the present value of future cash flows, regardless of the net selling price.

38. At present impairment testing is required only for listed companies, and only with respect to specific assets such as property, plant and equipment.

Property, plant and equipment – revaluation and subsequent costs

Revaluation

39. Brazilian standards require that property, plant and equipment should be valued using the cost model, i.e. the historical cost less any accumulated depreciation. The revaluation model is an allowed alternative. However, the revaluation model is not applied routinely. The general tendency in Brazil has been to apply revalue property, plant and equipment in limited circumstances, e.g. when mergers, incorporation and other corporate restructuring occur.

40. There are some discrepancies in accounting practices regarding procedures for tax deferral and downward revaluation, but they are not significant. It is important to remember that in previous years, revaluation of assets was inappropriately used in Brazil as a way of increasing assets and equity. Currently, recognizing inflationary effects on financial statements is prohibited under corporate reporting law and tax regulation.

Subsequent costs

41. There are some differences between Brazilian accounting standards and IFRS in accounting for subsequent costs incurred in relation to property, plant and equipment. According to the IFRS, these costs should be expensed when incurred, unless these expenses contribute towards increasing the future economic benefits of the related item of property, plant and equipment. In Brazil, subsequent costs that cannot be capitalized as items of property, plant and equipment are recorded as deferred expenses and must be amortized over a period of 10 years in accordance with corporate law or within 5 years according to tax legislation.

Research and development costs

42. Accounting for research and development expenses constitutes one of main areas where there is discrepancy between Brazilian standards and IFRS. According to IFRS, costs incurred during the phase of researching new products should be recorded as expenses. Costs incurred during the development phase can be capitalized only when certain specific conditions stipulated by the IASB are met, namely: technical feasibility of completing the intangible asset so that it will be available for use or sale; viability of use or sale; probability of generating future economic benefits; availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and ability to measure reliably the expenditure attributable to the intangible asset during its development. In Brazil, research and development (R&D) costs must be capitalized and amortized over a period of 10 years. However, recent accounting practice in Brazil has leaned towards expensing all R&D costs, in accordance with tax legislation, on the grounds of uncertainty in obtaining future benefits from the products for which the costs were incurred.

Intangible assets (other than goodwill)

43. In accordance with IFRS – expenses incurred for software development for internal use are expensed when incurred. However, Brazilian standards allow entities to defer expensing of costs incurred for the development of new software systems.

Revenue recognition

44. General speaking, there are no significant differences between Brazilian and international standards on the recognition of revenue.

Financial instruments

45. With regard to accounting and reporting on financial instruments in Brazil, a distinction has to be made between financial and non-financial institutions as the former are subject to mandatory accounting procedures issued by the Central Bank of Brazil. The recognition and measurement requirements that banks and financial institutions need to adhere to are essentially similar to those stipulated in IFRS, including with respect to classification as mark-to-market and hedging. However, the extent of disclosure required in Brazil is lower relative to IFRS.

46. In contrast, Brazilian corporate legislation is totally silent on financial instruments. As a result listed companies apply CVM requirements. In general, these corporations treat certain financial instruments as off-balance-sheet items. The CVM only requires disclosure of estimated market value of financial instruments in the notes to the financial statements. Some of the alternative valuations that are allowed include the value that could be obtained by trading a similar financial instrument, or the adjusted present value based on current market interest rates for similar financial instruments. In this respect, the notes become more important than the financial statements.

Accounting policies, changes in accounting estimates and errors

47. IFRS require corrections of errors to be made by restating comparative prior period amounts; if the error occurred prior to the earliest period presented in the financial statements, this needs to be restated in the opening balance sheet. The common practice in Brazil is restating the opening balance sheet. Although convergence in this area is not perfect,

users are not disadvantaged as long as the procedures applied are clearly stated in the notes to the financial statements.

Leasing

48. Finance leases represent one of the difficult accounting problems in Brazil, particularly with respect to achieving convergence between Brazilian standards and IFRS. According to Brazilian tax regulations, all leases are accounted for using procedures similar to operating leases. Thus, lease transactions that are predominantly financial in nature are accounted for in a manner similar to operating leases. The lessee is not required to reflect the value of the leased asset and the corresponding liability in the balance sheet. It is worth noting that the Federal Accounting Council (CFC) has published accounting requirements for leases similar to IFRS, but as discussed earlier CFC standards, they are not mandatory.

49. With regard to leaseback operations, IFRS stipulates different approaches depending on the circumstances of the transaction. If it results in a finance lease, any profit should be deferred and amortized over the lease term. If it results in an operating lease, the profit or loss should be recognized immediately. In Brazil, profit obtained by the lessee on the sale of the leased asset must be recognized at the time of the transaction. Tax regulations prohibit deferral of such profit.

Government grants

50. Under Brazilian accounting standards, government investment grants are recognized in a capital reserve in equity when received and without any specific link to the assets or the project's lifespan. IFRS require that they should be recognized only when there is a reasonable certainty concerning compliance with conditions for receiving the grant.

Effects of changes in foreign exchange rates

51. In general, conversion and consolidation procedures in Brazil requiring the use of exchange rates are essentially the same as those required by IFRS. This reasonable degree of convergence with IFRS could possibly be explained by the influence of independent auditors in large accounting firms who work both in Brazil and abroad.

Business combinations

52. In Brazil, there is no legal obligation to assess the fair value of assets and liabilities when a business combination takes place. It is usually done for management purposes in order to determine the value of the asset which is being restructured. By contrast, this is mandatory in IFRS.

53. With respect to premiums and discounts in acquisitions of investments assessed by the equity method, amortization of goodwill deriving from expected future results cannot exceed 10 years (according to the CVM), while IFRS stipulates that goodwill should not be amortized but tested for impairment annually.

54. With respect to business combinations in Brazil, the legal form is more important than the essence of the transaction. IFRS principally require an assessment of the essence of the deal and consider practically all business combination transactions as acquisitions, unless it is impossible to identify the buyer. In comparing CVM's standards with the IASB goodwill requirements (on business combinations), the following specific procedures deserve mentioning:

(a) Goodwill is recorded according to its economic basis under the CVM standards, whereas under the IFRS it is recorded as goodwill resulting from a business acquisition;

(b) IFRS obliges the acquirer to recognize in profit and loss the acquirer's interest in the net fair value of the acquired asset that exceeds the cost of the combination. However, in accordance with CVM standards in force in Brazil, this is carried in account that reduces the equity of the investment that it refers to.

Investments in associates

55. In order to apply the equity method to investments in associated companies, Brazilian accounting standards require ownership of 20 per cent or more of the associated company's capital. IFRS stipulate that if an investor, directly or indirectly, holds 20 per cent or more of the voting power of the investee, it is presumed that the investor has significant influence and the equity method must be used.

56. The CVM standard is similar to IASB's in stipulating that investments in subsidiaries do not necessarily have to be significant in order to apply the equity method; however, they differ in that the CVM standards stipulate that the equity method can be applied for all associated companies with a minimum of a 10 per cent investment in the company's capital, while the IASB determines that it can only be applied when there is a minimum of 20 per cent ownership of voting stock.

57. Finally, there are some technical differences in the calculation and determination of equity related to provisions, reporting dates, etc.

Employee benefits

58. Listed companies in Brazil recognize and measure employee benefits in accordance with a standard issued by IBRACON. The CVM subsequently made the IBRACON standard mandatory for listed companies. The objective of IFRS and Brazilian accounting standards on employee benefits is to establish the accounting and disclosure requirement for employee benefits, including short-term benefits, pensions, post-employment life insurance and medical benefits and other long-term employment benefits. The Brazilian standard deals with benefits that employees will be entitled after their time of service, whether paid directly to employees or indirectly through contributions to a social security entity.

59. Certain companies use cash-based accounting. Some do not have to use it at all as they do not have employee benefit programmes because in Brazil the Federal Government has an official retirement plan to which both employer and employee contribute.

Interest payments on shareholders' equity

60. In Brazil, interest payments related to remuneration on shareholders' equity are treated as an expense by tax legislation and as a reduction of the earned surplus account by corporate legislation. Under both types of legislation, this interest essentially represents dividend payments. IFRS require that dividend payments on shares that are wholly recognized as liabilities should be treated in the same way as interest payments on bonds.

Cash flow statement

61. Cash flow statements are optional in Brazil, but supplementary information is required in IFRS. The Statement of Source and Application of Funds (known in Portuguese

under the acronym DOAR) is a requirement. Replacing the DOAR with a cash flow statement is one of the goals of convergence to IFRS. This has been proposed as one of the amendments on Brazil's Corporation Law.

Earnings per share

62. In Brazil, earnings per share are calculated by dividing fiscal year net profit by the number of common and preferred stocks in circulation at the end of the period, while IFRS require calculation by dividing the period's net profit or loss attributable to common stockholders by the weighted average of the number of common stock outstanding during the period. Unlike in IFRS, in Brazil, calculation of diluted earnings per share is not required.

Segment reporting

63. Brazilian accounting standards do not require information or reports on business segments. The CVM has published a voluntary orientation report recommending that listed companies provide segment-level reporting.

Interim financial statements

64. In Brazil, only financial institutions – as required under the Central Bank of Brazil's legislation – are required to prepare and publish monthly and half-yearly balance sheets. Listed companies must prepare quarterly information to be made available to the stock exchange and investors.

Provisions, contingent liabilities and contingent assets

65. Brazilian and IFRS requirements are similar with respect to recognition of contingencies.

III. LESSONS LEARNED

66. The need to improve the efficiency of the development of accounting standards is recognized in Brazil. Various efforts are being undertaken towards improving the standard-setting process. These efforts are expected to result in: (1) harmonization of accounting standards for different business sectors; (2) greater alignment with international standards; and (3) faster turnaround time for implementing new standards.

67. One of main lessons learned so far during the process of convergence of Brazilian accounting standards and IFRS was the need for better coordination of efforts among the various organizations involved in this process. As a number of agencies are involved in the regulatory processes affecting accounting, legislative approval of proposed accounting standards calls for extensive consultations and takes a considerable amount of time. As a result accounting standards are not keeping pace with changes in the business environment.

68. Therefore, in recent years, there has been increased interaction between the CVM and IBRACON with a view to harmonizing the standards issued by the two agencies. IBRACON has worked jointly with the CVM and its consultative body on accounting standards towards the goal of gradually reducing existing differences between Brazilian accounting standards and IFRS.

69. Another important development in Brazil is a Bill (no. 3741/2000) that is currently being considered by the Chamber of Deputies' Finances and Tax Commission in the

Brazilian Congress. It proposes various measures to promote convergence between Brazilian standards and the IFRS that are expected to facilitate the process.

70. The main proposals of the Bill include: creating a single entity responsible for preparing and issuing accounting standards; CVM issued standards should be in conformity with IFRS; a clear separation of tax legislation from financial reporting requirements; making cash flow statements mandatory for listed companies; making the presentation of the Economic Value Added (EVA) obligatory; and requirements that large companies, corporations, private companies, and limited liability companies disclose their audited financial statements.

71. As discussed in previous sections, IFRS expertise in Brazil is currently highly concentrated in a small circle of professional accountants. Therefore, further concerted efforts are needed in the area of education and training on IFRS-related issues.

72. There is a strong need for greater international cooperation to ensure a wider dissemination of knowledge on IFRS, including in languages that are easily understood in Brazil. The IASB could facilitate access to IFRS by conducting a series of technical discussions in Brazil so that communication and expertise are enhanced.

IV. CONCLUSIONS

73. Brazil's legal culture has had strong repercussions on the country's system of accounting. Law no. 6404/76 has defined in detail the accounting standards that corporations must follow. The Corporate Law contains accounting standards that in other countries are developed by a whole series of rules and regulations. Therefore, to change an accounting standard prescribed by the law, one must pass another law, which causes the process of change in the Brazilian system of accounting to be slow and inflexible.

74. Despite this challenge, modern accounting in Brazil has evolved through legally constituted agencies that supervise and inspect the financial market. However, this development has been slowed down by lack of coordination between related regulatory bodies. In particular, between the CVM that supervises and inspects the capital market for non-financial institutions and the Central Bank of Brazil's Department of Banking Standards and Inspection that monitors financial institutions.

75. The new Corporate Law contained in Bill no. 3741/2000, and around which consultations have been conducted in the Brazilian Congress for over five years, proposes substantive changes in the formal structure of developing the country's accounting standards. The law is expected to abandon the current scope of prescriptive accounting rules and will instead take on an authorizing role. The process of developing standards will then be conducted by an independent agency that will be established by law. It will comprise professionals with specific expertise and will also include academics, trade associations, and businesses. It is hoped that this change will increase quality, speed and convergence with IFRS.

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